KGEN POWER CORPORATION

Report to Shareholders

for

Quarter Ended September 30, 2012

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PART I—FINANCIAL INFORMATION

Number 1. Unaudited Condensed Consolidated Financial Statements and Notes

KGen Power Corporation

Condensed Consolidated Balance Sheets

(in thousands, except per share amounts)

(unaudited)

	September 30, 2012	June 30, 2012
Assets		
Current assets:		
Cash and cash equivalents	**$ 72,121**	$ 69,174
Restricted cash and cash equivalents	**41,185**	43,384
Restricted cash in escrow	**79,694**	79,694
Accounts receivable	**6**	12
Prepaid expenses and other current assets	**284**	237
Assets held for sale	**257,907**	260,292
Total current assets	**451,197**	452,793
Property, plant, and equipment	**3,488**	3,488
Less: accumulated depreciation	**2,983**	2,936
Net property, plant, and equipment	**505**	552
Deferred tax assets	**11,388**	10,354
Total assets	**$ 463,090**	$ 463,699
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 1,732**	$ 1,494
Liabilities associated with assets held for sale	**19,014**	19,163
Total current liabilities	**20,746**	20,657
Other noncurrent liabilities	**4**	6
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Common stock (par value $.01; 150,000 shares authorized; 56,129 shares issued and outstanding at both September 30, 2012 and June 30, 2012.)	**561**	561
Additional paid in capital	**463,472**	463,472
Accumulated deficit	**(21,693)**	(20,997)
Total stockholders' equity	**442,340**	443,036
Total liabilities and stockholders' equity	**$ 463,090**	$ 463,699

The accompanying notes are an integral part of these condensed consolidated financial statements.

KGen Power Corporation

Condensed Consolidated Statements of Operations

(in thousands, except per share amounts)

(unaudited)

	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011
Revenues:		
Energy sales	**$ 17,990**	$ 33,247
Capacity sales	**5,684**	6,589
Total revenues	**23,674**	39,836
Operating expenses:		
Cost of fuel	**15,014**	29,274
Operating and maintenance	**2,446**	3,243
Gas transportation	**3,069**	3,069
Selling, general, and administrative	**2,142**	2,531
Depreciation	**46**	154
Auxiliary power	**662**	954
Insurance	**494**	491
Total operating expenses	**23,873**	39,716
Operating (loss) income	**(199)**	120
Other expenses:		
Taxes, other than income taxes	**(1,471)**	(1,302)
Other	**(60)**	(40)
Total other expenses	**(1,531)**	(1,342)
Net loss before taxes	**(1,730)**	(1,222)
Income tax benefit	**1,034**	574
Net loss	**$ (696)**	$ (648)
Net loss per share – basic and diluted	**$ (0.01)**	$ (0.01)
Weighted average shares outstanding—basic and diluted	**56,129**	56,122

The accompanying notes are an integral part of these condensed consolidated financial statements.

KGen Power Corporation

Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2012
Cash flows from operating activities		
Net loss	**$ (696)**	$ (648)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	**46**	154
Stock-based compensation	**—**	132
Income on investment in restricted cash in escrow	**—**	(14)
Deferred tax assets	**(1,034)**	(510)
Changes in operating assets and liabilities:		
Accounts receivable	**2,373**	3,519
Spare parts inventories	**(59)**	(59)
Prepaid expenses and other current assets	**(47)**	208
Accounts payable and accrued liabilities	**147**	(44)
Other noncurrent liabilities	**(2)**	(1)
Net cash provided by operating activities	**728**	2,737
Cash flows from investing activities		
Purchases of property, plant, and equipment	**(78)**	(287)
Disposals of property, plant, and equipment	**98**	
Change in short-term investments	**—**	(2)
Use of restricted cash and cash equivalents	**2,199**	—
Net cash provided by (used in) investing activities	**2,219**	(289)
Increase in cash and cash equivalents	**2,947**	2,448
Cash and cash equivalents at beginning of period	**69,174**	89,442
Cash and cash equivalents at end of period	**$ 72,121**	$ 91,890
Noncash transactions		
Accounts payable related to purchases of property, plant, and equipment	**$ 58**	$ 738

The accompanying notes are an integral part of these condensed consolidated financial statements.

KGen Power Corporation

Notes to Unaudited Condensed Consolidated Financial Statements

1. Nature of Business and Significant Accounting Policies

Operations—KGen Power Corporation (the "Company") was incorporated in Delaware on December 4, 2006, which is the date of its inception. The Company owns and operates electric power generation plants and sells electricity and electrical generation capacity in the United States to wholesale purchasers such as retail electric providers, power trading organizations, municipal utilities, electric power cooperatives, and other power generation companies. As of September 30, 2012, the Company's portfolio of facilities consisted of two operational and fully permitted combined-cycle power plants (Hot Spring and Hinds), or (the "Plants"), located in the southeastern United States with an aggregate capacity of 1,140 megawatts ("MW").

On April 28, 2011, the Company executed separate definitive agreements for the sale of its Hinds and Hot Spring power plants. Assets held for sale and liabilities associated with the assets held for sale related to the Hinds and Hot Spring power generation facilities were recorded as current assets and current liabilities as of September 30, 2012 and June 30, 2012 (See Note 8).

Interim Financial Statements—The accompanying condensed consolidated financial statements have been prepared in accordance with the regulations regarding interim financial reporting. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted. In the opinion of management, all adjustments (consisting of normal recurring accruals, except as noted in Note 4—Commitments and Contingencies) considered necessary for a fair presentation have been included. The balance sheet as of June 30, 2012 reflected herein is derived from the Consolidated Financial Statements and Notes included in the Company's Annual Report for the year ended June 30, 2012. These condensed consolidated financial statements included herein should be read in conjunction with those Consolidated Financial Statements and Notes.

Use of Estimates—The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Such estimates include the utilization of deferred tax assets and share-based compensation. Actual results could differ from these estimates.

Principles of Consolidation—The condensed consolidated financial statements include the accounts of the Company and those of KGen Partners LLC, KGen Power Management Inc., KGen LLC, KGen Murray LLC, KGen Hot Spring LLC, KGen Hinds LLC, and KGen Acquisition I LLC, all direct or indirect 100% owned subsidiaries of the Company, as well as any variable interest entities for which the Company is the primary beneficiary during which those entities were owned. All significant intercompany balances and transactions have been eliminated in consolidation.

Effects of Seasonality—The electric power industry is highly seasonal. In the summer months, especially in the southeastern United States, demand for electricity is usually much higher as a result of increased use of air conditioning. The Company's results of operations are subject to seasonal variations since demand for electricity and production varies with weather conditions. The Hinds and Hot Spring plants operate on a merchant basis without long-term purchase agreements, and therefore are exposed to significant volatility in prices and generation demand. The Company earns the majority of its annual revenues in the five summer months, May through September. The shoulder periods, months other than the peak summer months, historically have not been profitable for the Company and are typically the months during which the Company seeks to perform scheduled maintenance-related activities.

Fair Value of Financial Instruments—The Company's current financial instruments consisted primarily of cash and cash equivalents, restricted cash and cash equivalents, restricted cash in escrow, accounts receivable, and accounts payable and accrued liabilities. The carrying values are representative of their respective fair value due to the short-term nature of these instruments.

2. Property, Plant, and Equipment

Property, plant, and equipment consists of the following (in thousands of dollars):

	Estimated Useful Life	September 30, 2012	June 30, 2012
Systems and equipment	3-6 years	$ 3,488	$ 3,488
Less: accumulated depreciation		2,983	2,936
Net property, plant, and equipment		$ 505	$ 552

On April 28, 2011, the assets of the Hinds and Hot Spring power generation facilities, which are the subject of purchase and sale agreements entered into on April 28, 2011 with subsidiaries of Entergy Corporation (“Entergy”), were classified as held for sale and were no longer presented in property, plant, and equipment (See Note 8).

3. Restricted Cash and Cash Equivalents and Restricted Cash in Escrow

This footnote should be read in conjunction with Note 3—Restricted Cash and Cash Equivalents and Restricted Cash in Escrow of the Notes to the Consolidated Financial Statements contained in the Annual Report for the year ended June 30, 2012.

There were $41.2 million and $43.4 million of outstanding letters of credit issued under the Company’s $75.0 million letter of credit facility, at September 30, 2012 and June 30, 2012, respectively. On September 6, 2012, $2.2 million of the cash collateral securing outstanding letters of credit was returned, in connection with the reduction of such letters of credit, leaving $41.2 million outstanding as of September 30, 2012. The balance was recorded in restricted cash and cash equivalents. The letters of credit issued under this facility support obligations associated with ongoing long-term gas transportation contracts at the Hinds and Hot Spring facilities. Fees related to this letter of credit facility were expensed as incurred and totaled $0.1 million for both the three months ended September 30, 2012 and 2011.

There was $79.7 million in restricted cash in escrow, at both September 30, 2012 and June 30, 2012. This escrow balance was recorded in restricted cash in escrow and was released on October 9, 2012.

4. Commitments and Contingencies

Litigation—The Company may be a party to various legal and regulatory actions arising in the normal course of business. Matters that are probable of unfavorable outcome to the Company and which can be reasonably estimated are accrued.

Commitments—The Company enters into long-term contractual arrangements for power purchases and capacity sales and to procure fuel and transportation services. There have not been significant changes to these commitments as discussed in Note 4—Commitments in the Notes to Consolidated Financial Statements contained in the Annual Report for the year ended June 30, 2012.

5. Net Loss per Share

Basic loss per share is calculated by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Due to the net loss for the three months ended September 30, 2012 and 2011, diluted earnings per share was calculated on the same basis as basic loss per share as the inclusion of any other potential shares outstanding would be anti-dilutive. Unexercised out-of-the-money stock options to purchase a weighted average of 796,297 shares of common stock for both the three months ended September 30, 2012 and 2011 were not considered in the loss per share calculation as the impact of such inclusion would have been anti-dilutive. Amounts shown below are in thousands, except per share amounts.

	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011
Numerator:		
Net loss	$ (696)	$ (648)
Denominator:		
Weighted average shares outstanding—basic and diluted	56,129	56,122
Net loss per share– basic and diluted	$ (0.01)	$ (0.01)

6. Share-Based Payments

This footnote should be read in conjunction with Note 7—Share-Based Payments of the Notes to the Consolidated Financial Statements contained in the Annual Report for the year ended June 30, 2012.

The Company recorded compensation expense of zero and $0.1 million for the three months ended September 30, 2012 and 2011, respectively, related to the outstanding RSUs. As of both September 30, 2012 and June 30, 2012, there was no unrecognized compensation expense related to the unvested RSUs.

7. Income Taxes

The Company's provision for income taxes differed from that determined by applying the federal income tax rate (statutory rate) to income before income taxes, as follows (in thousands of dollars):

	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011
Statutory rate	35%	35%
Tax at statutory rate	$ (605)	$ (428)
Increase (decrease) due to:		
Nondeductible meals and entertainment	1	1
State tax benefit	(63)	(44)
Return to provision	—	(74)
Adjustment to valuation allowance	(367)	(29)
Total provision	$ (1,034)	$ (574)

7. Income Taxes (Continued)

Temporary differences and carryforwards which gave rise to deferred tax assets and liabilities were as follows (in thousands of dollars):

	September 30, 2012	June 30, 2012
Deferred tax assets:		
Contract-based intangible assets	$ 29	$ 30
Nonqualified stock options expense	5,910	5,910
Accrued expenses	195	195
Net operating loss	19,313	17,241
Contribution carryforward	4	2
Other	39	—
Net deferred tax assets	25,490	23,378
Deferred tax liabilities:		
Property, plant, and equipment	8,788	7,361
Prepaid expenses	1	(17)
Contract-based intangible liabilities	5,313	5,313
Net deferred tax liability	14,102	12,657
Valuation allowance	—	367
Deferred tax asset (liabilities), net	$ 11,388	$ 10,354

As of June 30, 2012, the Company had a federal net operating loss carryforward of $43.5 million. An additional tax loss of $5.4 million was generated for the three months ended September 30, 2012. The Company expects to sell its remaining plants within the next twelve months at an estimated tax gain of $228.0 million and will offset such gain with its federal net operating loss carryforwards. As of June 30, 2012, the Company had a valuation allowance against its Georgia net operating loss carryforward which it did not believe met the more-likely-than-not recognition. Should the sale of the remaining plants occur during the year ended June 30, 2013, it is likely that the Georgia net operating loss carryforward will be used. Accordingly, the Company has reversed the valuation allowance which has previously been recorded against the Georgia net operating loss carryforward.

The Company recognizes interest and penalties related to unrecognized tax benefits within the provision for income taxes on continuing operations in the consolidated statements of operations. There are no unrecognized tax benefits. There are no unrecognized tax benefits that if recognized would affect the tax rate. There are no interest and penalties recognized as of September 30, 2012.

The Company filed income tax returns in the United States federal jurisdiction and in various U.S. states. In all material respects, the Company will not be subject to United States federal, state, and local income tax examination by tax authorities for fiscal years ended before 2005.

8. Assets Held for Sale

This footnote should be read in conjunction with Note 9—Asset Sales and Assets Held for Sale of the Notes to the Consolidated Financial Statements contained in the Annual Report for the year ended June 30, 2012.

KGen Hinds LLC and KGen Hot Spring LLC Held for Sale

On April 28, 2011, it was determined that the assets held for sale criteria were met when the Company executed a definitive agreement for the sale of the Company's Hinds power generation facility to Entergy Mississippi, Inc. for a cash purchase price of $206.0 million, subject to certain adjustments. The Company received approval from holders of a majority of the Company's outstanding shares for the sale of this facility. The transaction is conditioned on the satisfaction of various regulatory approvals and other conditions described in the 2011 Special Meeting Proxy Statement. Substantially all of the regulatory conditions to closing have been satisfied or waived. Although the mandatory waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the "HSR Act") applicable to the transaction has expired, at the request of the Antitrust Division of the U.S. Department of Justice ("DOJ"), made in connection with the DOJ's ongoing review of the Hinds and Hot Spring transactions, the Company and Entergy agreed to delay closing of the transaction. The Company is currently in discussions with the DOJ and Entergy regarding the DOJ's concerns and the potential timing for closing of the transaction. The transaction also remains subject to customary contractual closing conditions. Under the terms of the transaction agreement, $30.0 million of the purchase price will be held in escrow to secure customary post-closing indemnification obligations. An escrow amount of $10.0 million is subject to release 12 months after closing, an additional $10.0 million is subject to release 18 months after closing, and the remaining balance will be subject to release 42 months after closing.

On April 28, 2011, it was determined that the assets held for sale criteria were met when the Company executed a definitive agreement for the sale of the Company's Hot Spring power generation facility to Entergy Arkansas, Inc. for a cash purchase price of $253.0 million, subject to certain adjustments. The Company received approval from holders of a majority of the Company's outstanding shares for the sale of this facility. The transaction is conditioned on the satisfaction of various regulatory approvals and other conditions described in the 2011 Special Meeting Proxy Statement. Substantially all of the regulatory conditions to closing have been satisfied or waived. Although the mandatory waiting period under the HSR Act applicable to the transaction has expired, at the request of the DOJ, made in connection with the DOJ's ongoing review of the Hinds and Hot Spring transactions, the Company and Entergy agreed to delay closing of the transaction. The Company is currently in discussions with the DOJ and Entergy regarding the DOJ's concerns and the potential timing for closing of the transaction. The transaction also remains subject to customary contractual closing conditions. Under the terms of the transaction agreement, $38.0 million of the purchase price will be held in escrow to secure customary post-closing indemnification obligations. An escrow amount of $12.0 million is subject to release 12 months after closing, an additional $13.8 million is subject to release 18 months after closing, and the remaining balance will be subject to release 42 months after closing.

Under Delaware law, stockholder approval will be required for the ultimate dissolution of the Company. No such approval of the stockholders of the Company has yet been obtained.

8. Assets Held for Sale (Continued)

Assets held for sale and liabilities associated with the assets held for sale related to the Hinds and Hot Spring power generation facilities were valued at the lower of historical book value or fair value less cost of disposal and were recorded as current assets and current liabilities as of September 30, 2012 and June 30, 2012. The Company suspended related depreciation and amortization of these assets upon their classification of assets held for sale on April 28, 2011. Their combined total consisted of the following (in thousands of dollars):

	September 30, 2012	June 30, 2012
Accounts receivable	$ 105	$ 2,472
Spare parts inventories	4,415	4,086
Property, plant, and equipment (net of 40,280 and 40,323 of accumulated depreciation, respectively)	253,412	253,489
Other assets	245	245
Assets held for sale	$ 257,907	$ 260,292
Accounts payable and accrued liabilities	$ 5,314	$ 5,463
Contract-based intangibles (net of $5,161 of accumulated amortization for both years)	13,700	13,700
Liabilities associated with assets held for sale	$ 19,014	$ 19,163

Contract-based intangibles related to the held for sale assets consist of the following (in thousands of dollars):

	Term	Original Cost	Accumulated Amortization	September 30, 2012	June 30, 2012
Hot Spring firm transportation contracts	Various	$ 18,861	$ (5,161)	$ 13,700	$ 13,700
Total liabilities		$ 18,861	$ (5,161)	$ 13,700	$ 13,700

9. Subsequent Events

On October 9, 2012, the restricted cash in escrow of $79.7 million related to the sale of the Company's Murray facility was released as expected.

Subsequent events were analyzed and considered through November 14, 2012, the date this report was available for issuance.

Number 2. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

Business Overview

We own and operate electric power generation plants and sell electricity and electrical generation capacity in the southeastern United States. We sell power and related products to wholesale purchasers such as retail electric providers, power trading organizations, municipal utilities, electric power cooperatives, and other power generation companies. Our portfolio of facilities consists of two operational and fully permitted combined-cycle power plants, (Hot Spring and Hinds), with General Electric (GE) 7FA gas turbines. Our Plants have an aggregate nominal capacity of 1,140 MW. On April 28, 2011, we executed separate definitive sales agreements for the sale of our Hinds and Hot Spring power plants which currently operate as merchant power providers.

Under the terms of our definitive agreement for the sale of our Hinds power generation facility, we agreed to sell this facility to Entergy Mississippi, Inc. for a cash purchase price of $206.0 million, subject to certain adjustments. The Company received approval from holders of a majority of the Company's outstanding shares for the sale of this facility. The transaction is conditioned on the satisfaction of various regulatory approvals and other conditions described in our 2011 Special Meeting Proxy Statement. Substantially all of the regulatory conditions to closing have been satisfied or waived. Although the mandatory waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, or the HSR Act, applicable to the transaction has expired, at the request of the Antitrust Division of the U.S. Department of Justice, or DOJ, made in connection with the DOJ's ongoing review of the Hinds and Hot Spring transactions, we and Entergy agreed to delay closing of the transaction. We are currently in discussions with the DOJ and Entergy regarding the DOJ's concerns and the potential timing for closing of the transaction. The transaction also remains subject to customary contractual closing conditions. Under the terms of the transaction agreement, $30.0 million of the purchase price will be held in escrow to secure customary post-closing indemnification obligations. An escrow amount of $10.0 million is subject to release 12 months after closing, an additional $10.0 million is subject to release 18 months after closing, and the remaining balance will be subject to release 42 months after closing.

Under the terms of our definitive agreement for the sale of our Hot Spring power generation facility, we agreed to sell this facility to Entergy Arkansas, Inc. for a cash purchase price of $253.0 million, subject to certain adjustments. The Company received approval from holders of a majority of the Company's outstanding shares for the sale of this facility. The transaction is conditioned on the satisfaction of various regulatory approvals and other conditions described in our 2011 Special Meeting Proxy Statement. Substantially all of the regulatory conditions to closing have been satisfied or waived. Although the mandatory waiting period under the HSR Act applicable to the transaction has expired, at the request of the DOJ, made in connection with the DOJ's ongoing review of the Hinds and Hot Spring transactions, we and Entergy agreed to delay closing of the transaction. We are currently in discussions with the DOJ and Entergy regarding the DOJ's concerns and the potential timing for closing of the transaction. The transaction also remains subject to customary contractual closing conditions. Under the terms of the transaction agreement, $38.0 million of the purchase price will be held in escrow to secure customary post-closing indemnification obligations. An escrow amount of $12.0 million is subject to release 12 months after closing, an additional $13.8 million is subject to release 18 months after closing, and the remaining balance will be subject to release 42 months after closing.

On April 27, 2011, the Board unanimously approved and adopted a Plan of Liquidation of the Company for federal income tax purposes. The Plan of Liquidation provides that the Company will distribute to the stockholders of the Company (on a pro rata basis), in a series of distributions in complete liquidation of the Company, the net proceeds of the Company's sale transactions. The Board expects that, after completion of our Hinds and Hot Spring divestitures, it will approve the Dissolution of the Company, subject to stockholder approval. Promptly after the effective date of the Dissolution, which we expect to occur around April 2014, the Company will transfer to a liquidating trust that we expect to establish for the benefit of our stockholders, all remaining cash and other assets of the Company (including the right to receive all sale proceeds paid to the Company out of the escrows established pursuant to the Company's transaction agreements). In addition, the liquidating trust will assume, and become responsible for, all of the Company's unsatisfied liabilities and obligations, including any unknown or contingent liabilities of the Company. The Company's stockholders of record as of the close of business on the effective date of the Dissolution will receive one unit of beneficial interests in the liquidating trust for each share of stock of the Company. All cash transferred by the Company to the liquidating trust and the net proceeds to the liquidating trust of funds released from escrow after the Dissolution (and the proceeds received by the liquidating trust from the disposition of any non-cash assets it receives) will be distributed by the liquidating trust to the holders of beneficial interests in the liquidating trust, subject to wind down expenses and reserves for liabilities of the Company and the liquidating trust, including contingent liabilities. Risks related to the Plan of Liquidation and Dissolution are disclosed under "Risk Factors—Risks Related to Our Plan of Liquidation and Dissolution" in our Annual Report for the year ended June 30, 2012.

Results of Operations

Our results of operations are subject to seasonal variations since demand for electricity and production capacity varies with weather conditions. We earn the majority of our revenues in the months of May through September. Months other than the peak summer months are the months during which we typically seek to perform scheduled maintenance-related activities.

Consolidated Results of Operations of KGen for the Three Months Ended September 30, 2012 compared to the Three Months Ended September 30, 2011.

The following table sets forth our results of operations for the three months ended September 30, 2012 and 2011, expressed in thousands of dollars.

	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011	Favorable/(Unfavorable) Change	Favorable/(Unfavorable) % Change
Revenues:				
Energy sales	$ 17,990	$ 33,247	$ (15,257)	(46%)
Capacity sales	5,684	6,589	(905)	(14%)
Total revenues	23,674	39,836	(16,162)	(41%)
Operating expenses:				
Cost of fuel	15,014	29,274	14,260	49%
Operating and maintenance	2,446	3,243	797	25%
Gas transportation	3,069	3,069	—	0%
Selling, general, and administrative	2,142	2,531	389	15%
Depreciation	46	154	108	70%
Auxiliary power	662	954	292	31%
Insurance	494	491	(3)	(1%)
Total operating expenses	23,873	39,716	15,843	40%
Operating (loss) income	(199)	120	(319)	266%
Other expenses:				
Taxes, other than income taxes	(1,471)	(1,302)	(169)	(13%)
Other	(60)	(40)	(20)	(50%)
Total other expenses	(1,531)	(1,342)	(189)	(14%)
Net loss before taxes	$ (1,730)	$ (1,222)	$ (508)	(42%)

Operating and Business Metrics We Use to Analyze the Company's Performance for the Three Months Ended September 30, 2012 and September 30, 2011

In addition to the foregoing results of operations presented in accordance with GAAP, we utilize various non-GAAP operating and business metrics to analyze the Company's performance. We believe these metrics provide useful insight into the Company's performance, assist us in identifying trends in our business, and better allow us to compare our performance to others in our industry. We describe below these various non-GAAP metrics and provide a reconciliation of these metrics for the three months ended September 30, 2012 and 2011, to the most directly comparable GAAP measures for those periods. See the reconciliation of net loss to EBITDA, adjusted

EBITDA, and adjusted plant EBITDA on page 16. This presentation may not include all of the disclosure that SEC regulations would require a company that files periodic reports with the SEC to make, with respect to non-GAAP financial measures.

Merchant Margin

Merchant margin is equal to the sum of merchant energy margin and merchant capacity sales. Merchant energy margin is defined as energy sales less the related cost of fuel pursuant to arrangements having an original delivery term of less than one year. Merchant capacity sales is defined as capacity sales pursuant to arrangements having an original delivery term of less than one year. We consider our Plants to be merchant plants because they did not sell their energy output and capacity pursuant to long-term sales agreements during these reporting periods.

	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011
Energy sales	$ 17,990	$ 33,247
Less: Cost of fuel	(15,014)	(29,274)
Merchant energy margin	2,976	3,973
Merchant capacity sales	5,684	6,589
Merchant margin	$ 8,660	$ 10,562

Adjusted Plant Expense and Adjusted Corporate Expense

Adjusted plant expenses is defined as total operating expenses adjusted for the removal of (a) cost of fuel captured in merchant energy margin, (b) major maintenance expense, (c) the income effects of noncash amortization of contract-based intangibles of gas transportation expense, (d) all selling, general, and administrative expense, part of which is captured in adjusted corporate expenses (defined below), (e) any nonrecurring items such as contract termination and transition costs, (f) depreciation, (g) director and officer insurance expense captured in adjusted corporate expenses (defined below); and (h) the addition of taxes, other than income taxes, as it largely represents plant property taxes and payments in lieu of taxes.

	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011
Total operating expenses	$ 23,873	$ 39,716
Less: Cost of fuel	(15,014)	(29,274)
Less: Selling, general, and administrative expense	(2,142)	(2,531)
Less: Depreciation	(46)	(154)
Less: D&O insurance expense	(32)	(42)
Add: Taxes, other than income taxes	1,471	1,302
Adjusted plant expenses	$ 8,110	$ 9,017

Adjusted corporate expenses is defined as selling, general, and administrative expense adjusted for (a) the removal of noncash stock compensation, (b) any nonrecurring items such as costs associated with plant sales and (c) the addition of director and officer insurance expense.

	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011
Selling, general, and administrative expense	$ 2,142	$ 2,531
Less: Noncash employee options/awards expense	—	(132)
Less: Costs associated with plant sales	(63)	(219)
Add: D&O insurance expense	32	42
Adjusted corporate expenses	$ 2,111	$ 2,222

Adjusted Plant EBITDA and Adjusted EBITDA:

Adjusted plant EBITDA is defined as merchant margin less adjusted plant expenses. Adjusted EBITDA is defined as adjusted plant EBITDA less adjusted corporate expenses.

	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011	Favorable/(Unfavorable) Change	% Change
Merchant energy margin	$ 2,976	$ 3,973	$ (997)	(25%)
Merchant capacity sales	5,684	6,589	(905)	(14%)
Merchant margin	8,660	10,562	(1,902)	(18%)
Adjusted plant expenses	8,110	9,017	907	10%
Adjusted plant EBITDA	550	1,545	(995)	64%
Adjusted corporate expenses	2,111	2,222	111	5%
Adjusted EBITDA	$ (1,561)	$ (677)	$ (884)	(131%)

Selected Operating and Business Metrics

	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011	Favorable/(Unfavorable) Change	% Change
Selected Financial and Operating Data				
Merchant generation (GWh)	675	899	(224)	(25%)
Merchant margin/merchant generation ($/MWh)	$12.83	$11.75	$1.08	9%

Selected Market and Weather Data

	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011	Change	% Change
Selected Market Data(1)				
Average on-peak market power price—Entergy ($/MWh)	$ 30.33	$ 40.88	$ (10.55)	(26%)
Average Henry Hub gas price ($/MMbtu)	$ 2.87	$ 4.13	$ (1.26)	(31%)
Selected Weather Data				
Actual CDDs(2)	2,933	2,998	(65)	(2%)
Normal CDDs	2,629	2,614	15	1%

Notes:

(1) Data from Platt's Megawatt Daily and Gas Daily publications.

(2) CDD, or cooling degree days, represents the number of degrees during April through October that the mean temperature for a particular day is above 65 degrees Fahrenheit. The CDDs are then accumulated for a given period.

Historical Results of Operations of KGen for the Three Months Ended September 30, 2012 compared to the Three Months Ended September 30, 2011.

Merchant margin decreased $1.9 million, or 18%, to $8.7 million for the three months ended September 30, 2012. Merchant generation decreased by 25% from 899 GWh to 675 GWh for the three months ended September 30, 2012 as compared to the three months ended September 30, 2011. The decline in merchant margin and merchant generation was primarily due to cooler weather in August 2012 and preparations made in anticipation of closing the Hinds and Hot Spring sales transactions. The implied merchant spark spread, or merchant margin divided by merchant generation, increased from $11.75 per MWh to $12.83 per MWh, reflecting that more of the merchant activity occurred during the higher value months of July and August this year as compared to last year. The CDDs were lower by 2% during the three months ended September 30, 2012 compared to 2011.

Adjusted plant expenses decreased by $0.9 million, or 10%, to $8.1 million for the three months ended September 30, 2012. The decrease was primarily comprised of a $0.8 million decrease in operating and maintenance expenses, caused primarily by a scheduled outage at the Hinds facility in the previous year, and a $0.3 million decrease in auxiliary power, offset by a $0.2 million increase in taxes other than income taxes. As a result of the foregoing changes in merchant margin and adjusted plant expenses, adjusted plant EBITDA decreased by $1.0 million to $0.6 million for the three months ended September 30, 2012.

Adjusted corporate expenses decreased by $0.1 million, or 5%, to $2.1 million for the three months ended September 30, 2012.

As a result of the foregoing, adjusted EBITDA decreased by $0.9 million to a loss of $1.6 million for the three months ended September 30, 2012.

GAAP to Non-GAAP Adjusted EBITDA Reconciliation

Following is an alternative calculation of adjusted EBITDA and adjusted plant EBITDA starting from net loss before taxes. EBITDA is equal to net loss before taxes adjusted for interest expenses, income taxes, depreciation, and amortization. Adjusted EBITDA is equal to EBITDA minus certain other items (such as major maintenance and other nonrecurring expenses). Adjusted plant EBITDA is equal to total adjusted EBITDA less certain corporate expenses.

	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011
Net loss before taxes	$ (1,730)	$ (1,222)
Add: Depreciation	46	154
Add: Other expense	60	40
EBITDA	(1,624)	(1,028)
Add: Noncash employee options/awards expense	—	132
Add: Costs associated with plant sales	63	219
Adjusted EBITDA	(1,561)	(677)
Add: Selling, general, and administrative expense	2,142	2,531
Less: Noncash employee options/awards expense	—	(132)
Less: Costs associated with plant sales	(63)	(219)
Add: D&O insurance expense	32	42
Adjusted plant EBITDA	$ 550	$ 1,545

The following describes changes to specified financial measures of our performance. As indicated above, in calculating our adjusted EBITDA, we made adjustments to our net loss before taxes using these financial measures for the three months ended September 30, 2012 compared to the three months ended September 30, 2011.

- Depreciation was $46.0 thousand and $0.2 million for the three months ended September 30, 2012 and 2011, respectively.

- Noncash employee options/awards expense for the three months ended September 30, 2012 and 2011 was zero and $0.1 million, respectively, and was recorded as an increase of selling, general, and administrative expense.

- Costs associated with plant sales for the three months ended September 30, 2012 and 2011 were $0.1 million and $0.2 million, respectively, and were recorded as an increase of selling, general, and administrative expense.

- Selling, general, and administrative expense was $2.1 million and $2.5 million for the three months ended September 30, 2012 and 2011, respectively. The $0.4 million decrease was primarily due to a $0.1 million decrease in RSU expense, a $0.1 million decrease in professional tax services, and a $0.1 million decrease in costs associated with plant sales.

Liquidity and Capital Resources

Liquidity Position

As of September 30, 2012, our current cash on hand consisted of $72.1 million of unrestricted cash, $41.2 million of restricted cash supporting our outstanding letters of credit, and $79.7 million of restricted cash in escrow. We anticipate that our cash on hand and cash flow provided by operations will satisfy our short term liquidity needs with respect to our current portfolio of assets. Historically, our principal sources of funds were cash flows from operations and borrowings under our former Credit Facility. Our principal use of funds consisted of operating expenditures and capital expenditures.

Subsequent to the repayment of all outstanding debt under KGen LLC’s former credit agreement, a $75.0 million cash collateralized replacement letter of credit facility was entered into on April 8, 2011 of which $43.4 million of letters of credit were issued. On September 6, 2012, $2.2 million of the cash collateral securing the issued letters of credit was returned in connection with the reduction of such letters of credit, leaving $41.2 million outstanding as of September 30, 2012. The $41.2 million of cash collateral securing the outstanding letters of credit was recorded in restricted cash and cash equivalents. The letters of credit issued under this facility support obligations associated with ongoing long-term gas transportation contracts at the Hinds and Hot Spring facilities. Fees related to this letter of credit facility were $0.1 million for both the three months ended September 30, 2012 and 2011, and were expensed as incurred.

In connection with the April 8, 2011 sale of the Murray I and II combined- cycle power generation facilities, $79.7 million was placed in escrow for a period of 18 months after closing to secure customary post-closing indemnification obligations and will be subject to taxation. This escrow balance was recorded in restricted cash in escrow and was released on October 9, 2012.

Capital Expenditures and Major Maintenance

Total capital expenditures for the three months ended September 30, 2012 and 2011 were $21.0 thousand and $1.0 million, respectively. The $1.0 million of capital expenditures for the three months ended September 30, 2011 was primarily related to the drainage/soils master plan for the Hinds facility, which was required by the asset purchase agreement with Entergy Mississippi, Inc.

There was no major maintenance expense for the three months ended September 30, 2012 and 2011.

The timing of major maintenance expenditures is uncertain and can be delayed or accelerated depending on many factors including plant utilization, unexpected plant shut-downs for other reasons, and unanticipated dispatch schedules. We budget anticipated major maintenance costs by using our estimate of future anticipated run time at each facility. This schedule can change based upon changes to actual run time.

We incur costs for major maintenance on the Plants which are expensed in the period incurred. We expect to incur $1.0 million in major maintenance expenses in the remaining nine months of fiscal 2013.

Cash Flow Analysis

The following table summarizes our changes in cash (in thousands of dollars):

	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011
Statements of Cash Flows Data:		
Cash flows provided by (used in):		
Operating activities	$ 728	$ 2,737
Investing activities..	2,219	(289)
Increase in cash and cash equivalents	2,947	2,448
Cash and cash equivalents at beginning of period........	69,174	89,442
Cash and cash equivalents at end of period.................	$ 72,121	$ 91,890

Cash Flows from Operating Activities. Our cash flows provided by operations of $0.7 million for the three months ended September 30, 2012, related primarily to cash flow increases of $46.0 thousand in depreciation expense, $2.4 million in accounts receivable, and $0.1 million in accounts payable and accrued liabilities, all offset by a net loss of $0.7 million and cash flow decreases of $1.0 million in deferred tax assets, $0.1 million in spare parts inventories, and $47.0 thousand in prepaid expenses and other current assets.

Cash Flows from Investing Activities. Our cash flows used in investing activities for the three months ended September 30, 2012 were $2.2 million and represented the return of cash collateral securing outstanding letters of credit which moved $2.2 million from restricted cash and cash equivalents to unrestricted cash and cash equivalents.

PART II-OTHER INFORMATION

Number 1A. Risk Factors and Forward-Looking Statements

Risk Factors

Please refer to Number 1A of our Annual Report for the year ended June 30, 2012.

Forward-Looking Statements

The discussion in this report contains certain forward looking statements that involve risks and uncertainties. We have based these forward looking statements on our current expectations and assumptions about future events. In some cases, you can identify forward looking statements by terminology, such as “may,” “should,” “could,” “predict,” “potential,” “continue,” “expect,” “anticipate,” “future,” “intend,” “plan,” “believe,” “estimate,” “forecast” and similar expressions (or the negative of such expressions). Forward looking statements include statements concerning known and unknown risks, uncertainties and other important factors that could cause actual results, performance or achievements of KGen Power Corporation and its subsidiaries to differ materially from any future results, performance or achievements expressed or implied by such forward looking statements. Forward looking statements are based on our beliefs as well as assumptions based on information currently available to us, including financial and operational information, current competitive conditions, and anticipated demand for electricity. As a result, these statements are subject to various risks and uncertainties. For a discussion of material risks and uncertainties that the Company faces, see the discussion above, and the “Cautionary Statement concerning Forward Statements” and Part I. “Number 1A. Risk Factors” in our Annual Report for the fiscal year ended June 30, 2012.